

## THE INTERNATIONALIZATION PROCESS AND THE ASSET-LIGHT APPROACH

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### Abstract

*Today, regarding all industries, nothing is meant to last forever. If we look at industry trends in terms of corporate strategy, we clearly notice that most major companies are gearing toward an asset-light approach to remain competitive*

*The internationalization process has determined companies worldwide to find solutions to minimize transaction costs and the expansions costs on foreign markets.*

*In the maturity stage of the internationalization process, many companies from various business sectors, have chosen the "asset light" approach, a business model focusing on minimizing "in-house" resources and maximizing usage of outsourcing opportunities*

**Keywords;** internationalization, asset-light approach

**JEL Classification:** M14, M16

### 1. Introduction

The tariff reduction and economic globalization makes all kinds of resources flow more freely around the world, the global economy is bound to undergo major restructuring of the industry chain. This paper presents that the companies worldwide can use asset-light operating strategy to focus resources on product design, R&D, sales, service and brand promotion a high-profit industrial chain stage and to establish a competitive advantage for those companies.

*"Asset light business model"*, also known as "virtual business model", is about to outsource its non-core strengths, relying on supply chain service providers to conduct rapid expansion of sales channels, their focus on the design and marketing to a much shorter time, less capital and fixed assets, the development of faster and earn more lucrative industrial profit chain link. After you understand this principle to know, who will be their core strengths of non-chain outsourcing industry, and focus on their core strengths of the operating mode are called asset light business.

As the industry division of labor in-depth and non-tariff barriers increasingly weakened the flow of assets, also has become increasingly frequent and more closely inter-firm division of labor, business to their respective advantage of the area to pool resources, industry restructuring continued to deepen. The relationship between business parties to the transaction is no longer confined to trade relations between ordinary sense

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of the way or by linking a series of investor relations, and more is included strategic alliances and other forms of technical cooperation, and OEM relationships, including diversity, which is directly it has generated a new business model - asset-light business model.

The so-called asset-light, as opposed to the re-occupy a lot of money in terms of assets, including the experiences of enterprises, standardize the process management, corporate branding, customer relations, human resources, and equipment, plant, and raw materials than the occupation of these assets costs less but seem light and flexible, so called asset light. The asset-light operations can be understood as follows: under conditions of limited resources, leverage the use of other resources to the lowest input to achieve the Strategic Management of maximizing shareholder value.

The core idea of asset-light operations is to leverage the full use of external resources, to reduce their own investment, focus their resources on the most profitable stage of the industrial chain to improve corporate profitability. Asset-light business model to compete with the traditional theory, the major difference is that: the traditional competition theory is based on low-cost or differentiation to gain market share and volume growth in a competitive fundamental, while the asset-light business model is based on customers and profits to think about competitive strategy as the central, most concerned about the client's values, high-profit industrial chain stages and leverage the use of other resources, maximize shareholder value.

To asset-light model of expansion, and self-compared to the slow accumulation can get more profitability and a faster pace of development. In fact, it was determined to give up because of the need to spend a lot of money and the low value-added of heavy asset management links, companies such as Nike were able to move forward with ease and rapid development, and become the world's leaders.

## ***2. Examples of companies implementing the asset-light approach in their internationalization process***

Almost two years ago, Motorola said it would outsource 50% of its CMOS semiconductor manufacturing, a strategy the company dubbed "***asset light***." As the first phase of its asset-light strategy, Motorola announced a major manufacturing consolidation and the elimination of many internal manufacturing jobs.

Execution of this strategy has resulted in SPS today operating only 10 of its original 28 manufacturing facilities. Motorola reinforced this strategy by cutting capital expenditures for SPS dramatically in 2002.

Recognizing the need for advanced technology, Motorola in March 2002 entered into the Crolles2 Alliance with STMicroelectronics, Philips, and Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) for the development of next-generation technology at 90nm and smaller geometries. This alliance augmented Motorola's internal manufacturing capability at its MOS-13 fab in Austin, Texas.

These moves successfully slowed the bleeding from SPS's bottom line. After losing \$1.3 billion in the first half of 2002, SPS only reported a loss of \$125 million during the first six months of 2003 on a 5% decrease in sales.

iSuppli believes that if SPS is to become a successful spin-out that can profitably manufacture and sell high-value semiconductor products, it must continue down the road of manufacturing consolidation. The present trend among semiconductor Integrated Device Manufacturers (IDMs) is to consolidate older facilities and relocate them to lower-cost manufacturing regions.

Dow Chemicals Company was keen to implement the asset-light strategy for its chlorine business after completing ethylene and styrene.

On implementing the *asset-light strategy* for basic chemicals, Andrew Liveris, company's CEO, stressed that he was "not in a hurry to get it done at the wrong valuation" especially as the business generated an EBITDA of 1.7 last year.

"That is in a trough, demand led trough and great recession of all time. So we know we have a very high performing asset. The partners we are talking to are all strategic. There is three of them," he said.

Dow Chemical is continuing its series of divestitures as part of its effort to become a more asset light business. This will limit the company's reliance on raw materials and aid in paying the debt from its acquisition of Rohm & Haas. Dow has achieved US\$118 mln in savings by leveraging supplier contracts between Rohm & Haas and Dow.

Dow's Union Carbide Corporation subsidiary will sell its ownership stake in the Optimal Group of Companies to Petronas for US\$660 mln.

Dow agreed to sell an acrylic acid and esters plant and the North American unit of its UCAR Emulsion Systems specialty latex business to Arkema for US\$50 million. The sale was required to comply with Federal Trade Commission requirements following its purchase of Rohm & Haas.

Dow has announced the US\$1.7 bln sale of Morton Salt, expected to close in the second half, sold its calcium chloride business to Occidental Petroleum for US\$210 mln, and signed a deal to sell its stake in Total Raffinaderij Nederland for an expected \$725 million, also expected to close in the second half of 2009. Dow also recently announced it was closing three ethylene-related plants in Louisiana to cut costs and focus on specialty chemicals production.

In China, the company is collaborating with Shenhua Group (the country's largest coal mining company) to improve catalyst efficiency to allow viable conversion of coal to olefins. Dow is also seeking to expand its R&D presence in Asia, adding 600 jobs in Shanghai by the end of 2007, and the company may open up a large R&D center in India.

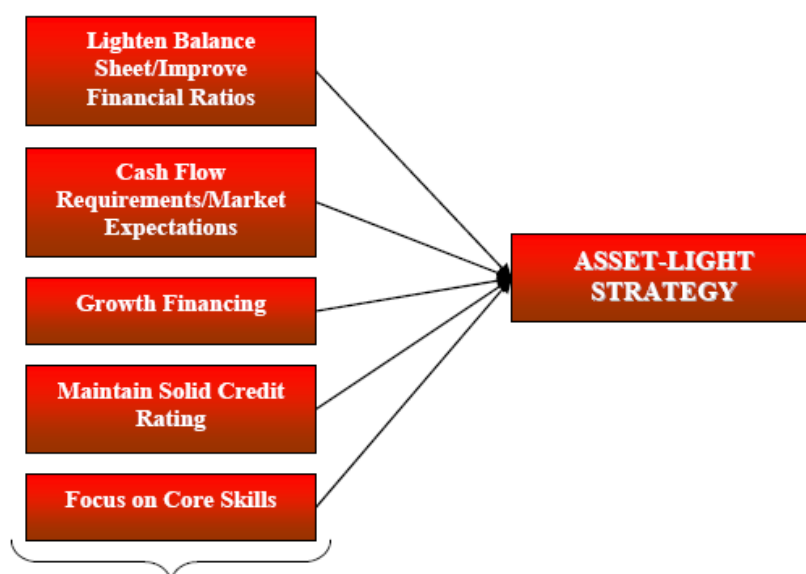
The joint ventures planned for Asia are typical of Dow's *"asset-light"* approach, which works by offering a combination of intellectual property and money in exchange for a share in a world-scale production facility. At the same time, the company is considering selling a share of some of its existing assets in order to free up cash.

Maintaining a low debt-equity ratio helps these companies preserve their investment-grade credit ratings and increases their debt capacity in order to finance future projects, thereby strengthening their financial flexibility. Furthermore, to

finance their growth, hotel companies prefer to use internally generated funds rather than debt. In this respect, major *asset-light companies* do not really need the public equity markets to grow. Their capital requirements are usually low, even if they occasionally require minority equity investments to “purchase” management contracts. This means that the logic for being public with regular access to the equity markets is less compelling.

In Europe, the asset-light strategy has been a popular way to unlock capital by selling the asset while ensuring control with long-term leaseback and management agreements. During 2005, a number of both single-asset and portfolio transactions involved the use of management contracts.

### Exhibit 1. Operating companies value drivers affecting asset disposition



In the hospitality industry, hotels such as Hilton's or Merriott are applying successfully asset-light business model. As the markets are getting more and more comfortable with the hotel industry, we can wonder how long hotel operating companies will be listed on major exchanges and if privatization is likely to continue since “size” doesn't seem to matter anymore. The question is whether hotel companies, given the asset-light strategy, are good businesses to be owned by the public markets.

According to Mark Abramson, if companies take the asset-light approach to its furthest logic, they would find (in most cases) that the remaining hotel management businesses do not have sufficient scale to be fully valued as public companies. A hotel operating company that is completely asset-light needs to have such a large number of hotels under management in order to have the cash flow and valuation sufficient to be listed in a major exchange (e.g., NYSE) that this is unachievable in all but a small number

of cases. So a pure asset-light company will never be valued to its fullest as a public company. "For private equity firms, this means increased interest rates and less-favorable repayment terms, which strikes at the heart of the deal in leveraged buyouts. If nothing else, private equity firms will have to reach deeper into their pockets or face a slowdown in deal velocity.

Thus, the near future of the debt markets will be a major determinant in whether private equity firms will continue to seek out new investment opportunities in the hospitality industry as the major hotel companies continue their asset-light poker play.

### **3. Conclusions**

Regardless of the internationalization method, we see within the analysis made on the basis of examples of large companies, that the asset-light approach is a business model that can be applied in the maturity stage of the internationalization process. Companies which apply this business model must have capital, market awareness, negotiation skills and possess know-how.

The theories of industrial organization and strategic management describe necessary conditions for firms to obtain a sustainable competitive advantage, and suggest appropriate strategies for corporations to obtain superior financial performance

The fundamental question of such theories is the utility in developing meaningful management tools and actionable strategies for their practitioners.

Although asset-light business model is not new, it has not been defined properly in the literature and at a brief analysis it seems multisectoral, applying to big companies, regardless of sector.

In a dynamic environment, where companies seek competitive advantage, asset-light approach becomes increasingly used, especially by companies that invest in Asia or the Middle East.

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